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SUBJECT: GORONTALO: VISITING A TROPICAL NEBRASKA, INDONESIA'S CORN CAPITAL

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¶1. (SBU) Summary: Well-known across Indonesia both for its corn production and dynamic Governor, Sulawesi's Gorontalo Province has gained a reputation as a showcase of public administration best practices. In an effort to sort hype from ground truth, Consulate General Surabaya Pol/Econ Officer and Pol/Econ Assistant visited the province on February 19-20 and met with the Vice Governor, representatives from the Regional Development and Planning Board (BAPPEDA), a province-owned company Fitrah Mandiri, the Provincial Investment Board, and the Trade and Industry Department. Prodded by their high profile governor, provincial officials work hard to sell foreign investors on Gorontalo's agricultural and non-agriculture sectors. Their key challenge remains diversifying and increasing efficiency of Gorontalo's corn-based economy, which is still heavily subsidized and inefficient despite higher corn prices. End Summary.

Brand Gorontalo

¶2. (SBU) The province of Gorontalo was established in 2001, in an amicable split with North Sulawesi. Gorontalo has been a success story and role model for other potential provinces, with a dynamic governor Fadel Muhammad and a reputation for strong public administration principles. The impact of Governor Fadel Muhammad is evident everywhere in Gorontalo. His popularity stems from his status as Gorontalo's first elected governor and his efforts at creating a unique identity for the province. From billboards to weekly radio speeches, the governor's efforts on behalf of the province were under constant discussion. Even critics of provincial policy expressed pride in the governor's success at creating a "brand" for the province. According to our meetings there, Fadel Muhammed's stated priorities for the new Province have not changed since he first shared them with Surabaya Principal Officer in 2002: developing Human Resources, developing agriculture (principally corn), and developing fisheries and marine products. During that 2002 meeting, he presented the Consulate with a binder entitled "The Entrepreneurial Administration of Gorontalo Province as Reported

by the Press." Our 2008 meeting with the Vice Governor and provincial development officials showed a fully developed public relations message: Gorontalo's welcome mat is out for foreign investment.

¶3. (SBU) These efforts have reaped rewards according to local officials. Gorontalo has had the largest growth in provincial income on the island of Sulawesi: 6.45% in 2002 and 7.49% in the first quarter of 2007. The main source of provincial revenue is from the agriculture and mining sectors. Unlike other provinces which frequently rely heavily on taxes, Gorontalo has eliminated provincial levies or "retribusi" on provincial services. In order to enhance the effectiveness of Gorontalo's large civil service the government has instituted a performance pay plan, with so far uncertain results.

Betting the Farm on Corn

¶4. (SBU) While we were told that Gorontalo is the second biggest corn producer in Indonesia after West Java, (and the only province that currently exports corn), 2007 U.S. Foreign Agricultural Service figures show that they are perhaps fourth biggest producer. Whatever the truth to their claims, establishing the perception that they are among Indonesia's leaders in corn production is key to Gorontalo's public relations campaign. Gorontalo's current customers are found in Malaysia, the Philippines, and Japan. With three corn harvests a year in most parts of the province, cheap production costs and the potential of corn as a bio-fuel has further raised expectations for corn-driven development. Gorontalo's government is now focused on increasing the productivity of farmers by providing high-yield seed corn and fertilizer. The long term goal of Gorontalo's planning officials is one million tons of corn production annually. Prohibitions against planting in landslide prone areas help protect the ecosystem, according to an agricultural department official. However, Gorontalo NGOs told us that deforestation is still a problem and land is continually brought under corn cultivation that should not be

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due to its potential to cause erosion.

¶5. (SBU) Officials told us that the key to Gorontalo's success has been a focus on both the domestic and international markets. "Although our production is still limited in scale, we look for markets and then export commodities to that market." Said one BAPPEDA official. The province has established the Gorontalo International Maize Information Center, (GIMIC) as a gateway to foreign investment in corn. Rising corn prices have encouraged increased investment. Gorontalo produced 87,720 tons of corn in 2001; in 2007 they harvested 584,800 tons. Through subsidies and aggressive marketing, Gorontalo is betting the farm on the continued rise in the price of corn to finance provincial economic development.

Pushing the Agenda-Gorontalo's Province-Owned Company

¶6. (SBU) The 100% province-owned company, PT. Gorontalo Fitrah Mandiri (GFM) is the guiding hand behind provincial efforts to develop corn-based agribusiness. GFM has six divisions: corn agribusiness, fisheries, manufacturing, rental services (mainly tractor rental), property and trading, and Local Finance Guarantee Agency (LPKD or Lembaga Penjaminan Keuangan Daerah). Emblemmatic of the savings GFM claims to bring back to the provincial coffers is their rental of civilian vehicles to the province for official use, thus saving on maintenance and regulatory restrictions. The LPKD also has cooperative agreements with the insurance company (Askrindo) and North Sulawesi Bank to provide loans to farmers. The LPKD has distributed Rp. 25 billion (USD 2.75 million) in loans at 12% interest for farmers and small scale businesses. Loans under Rp. 5 million (USD 560) are granted without collateral.

Foreign Investment Outlook

¶7. (SBU) According to provincial figures, the amount of investment in Gorontalo is around RP. 3 trillion (USD 330 million), mostly in medium and small scale trading, services, and agriculture sectors. Current foreign investors include Korean and Japanese companies. Gorontalo's provincial government ratified local regulations on investment in 2004 giving privileges to foreign investors such as freedom from levies, security guarantees, work force availability, and same day permit processing. Gorontalo has signed an MOU with a Mexican company concerning cooperation on the Gorontalo's Maize Information Center (GIMIC). Biological research will be conducted in Mexico while Gorontalo will become a maize information distribution center, according to local officials.

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